

Gatekeeper, Inc v Wang Wensheng (trading as Hawkeye Technologies)
[2011] SGHC 239

Case Number : Suit No 484 of 2011(Summons No 3414 of 2011)
Decision Date : 04 November 2011
Tribunal/Court : High Court
Coram : Choo Han Teck J
Counsel Name(s) : William Ong Boon Hwee and Magdelene Sim Jialing (Allen & Gledhill LLP) for the plaintiff; Christopher Goh Seng Leong and Constance Leong Choy Leng (Goh Phai Cheng LLC) for the defendant.
Parties : Gatekeeper, Inc — Wang Wensheng (trading as Hawkeye Technologies)

Injunctions – Interlocutory injunction

4 November 2011

Judgment reserved.

Choo Han Teck J:

1 The Plaintiff, Gatekeeper, Inc (“Gatekeeper”), is a Delaware corporation which designs, engineers and develops proprietary computer vision technology for use in the recognition and tracking of the undercarriage profiles of motor vehicles (the “Gatekeeper Technology”). The Defendant, Wang Wensheng (“Wang”), is the sole proprietor of Hawkeye Technologies (“Hawkeye”). Wang is also the Chief Technology Officer and a 42% shareholder of Gatekeeper.

2 Wang was asked by Gatekeeper’s Chief Executive Officer, Christopher Millar (“Millar”), to write a software to operate Gatekeeper’s under vehicle scanner. In November 2004, Wang commenced work for Gatekeeper and in April 2005, he had developed a working software which satisfied Gatekeeper’s requirements. On 8 April 2005, Gatekeeper and Hawkeye entered into an Agreement (the “Agreement”). Under clause 1(a) of the Agreement, Hawkeye transferred to Gatekeeper ownership of all works of authorship that Hawkeye had created for use as part of the Gatekeeper Technology. In return, Gatekeeper was to issue common stock and make royalty payments to Hawkeye. Gatekeeper is now suing Wang for breach of contract on the basis that Wang has failed to hand over to Gatekeeper intellectual property caught by clause 1(a). Gatekeeper claims damages and specific performance of clause 1(a).

3 This application was made by Gatekeeper for an interim mandatory injunction to compel Wang to deliver to Gatekeeper forthwith all intellectual property related to the Gatekeeper Technology including:

(a) Any and all computer programmes, source code, object code, executable code or files, and other software documentation relating to the Gatekeeper Technology (including the missing source code components and “CheckSign.cpp” that generates the “.sgn” file); and

(b) Any and all software files used on the runtime license issuance programme and its supporting hardware and software to enable the Plaintiff to create its own licensing server in the USA.

4 The law relating to interim injunctions is set out in *American Cyanamid Co v Ethicon Ltd*

[1975] AC 396 ("*American Cyanamid*"), which has been followed by Singapore courts, including the Court of Appeal in *Da Vinci Collection Pte Ltd v Richemont International SA* [2006] 3 SLR(R) 560. The Court in *American Cyanamid* held that in deciding whether to grant an interim injunction, the Court is to consider (a) whether there is a serious question to be tried; (b) if there is, whether damages would not be an adequate remedy; and (c) where the balance of convenience lies. However, Wang's counsel submitted that the test in relation to an interim mandatory injunction is not found in *American Cyanamid* but in the two Court of Appeal cases of *NCC International AB v Alliance Concrete Singapore Pte Ltd* [2008] 2 SLR(R) 565 ("*NCC International*") and *Chin Bay Ching v Merchant Ventures Pte Ltd* [2005] 3 SLR(R) 142 ("*Chin Bay Ching*"), which required the Plaintiff to show that a higher threshold has been reached or that special circumstances exist. The cases on which Wang's counsel relied do not support his submission. In *NCC International*, the Court held that there is a higher threshold to be met to persuade the court to grant an interim mandatory injunction as compared to an ordinary prohibitive injunction (and not an interim prohibitive injunction). In *Chin Bay Ching*, the Court limited its holding to interlocutory injunctions in defamation actions. Having said that, the Court of Appeal has, in *Chuan Hong Petrol Station Pte Ltd v Shell Singapore (Pte) Ltd* [1992] 2 SLR(R) 1 at [84], held that courts generally require more before they are willing to grant interim mandatory injunctions, as opposed to interim prohibitory injunctions. Nonetheless, the Court there held (at [88]-[89]) that this is "no more than a generalisation, albeit a useful one, of what courts normally do." What is more important is:

"[the] fundamental principle ... that the court should take whichever course appears to carry the lower risk of injustice if it should turn out to have been wrong at trial in the sense of granting relief to a party who fails to establish his rights at the trial, or of failing to grant relief to a party who succeeds at the trial ... *the guidelines for the grant of both kinds of interlocutory injunctions are derived from this principle* (emphasis added).

This fundamental principle is the third limb of the *American Cyanamid* test, which applies to interim mandatory injunctions in the absence of clear case law to the contrary.

5 I am of the view that Gatekeeper has shown that there is a serious question to be tried. Under clause 1(a) of the Agreement, Hawkeye transferred to Gatekeeper ownership of all works of authorship or inventorship that Hawkeye had created or would create, that relates to the scanning of the under carriage of motor vehicles for use as part of the Gatekeeper Technology. The exact wording of clause 1(a) is this:

Author hereby grants, transfers, assigns and conveys to Gatekeeper, and its successors and assigns, all right, title, interest, ownership and all subsidiary rights worldwide, in and to all works of authorship or inventorship that Author has created, is creating or creates hereinafter that relates to the scanning of the under carriage of motor vehicles for use as part of the Gatekeeper Technology *including but not limited to* any computer programs, source code, object code, executable code or files, or other software documentation the primary functional specifications for which are set forth in Exhibit A attached hereto.... (emphasis in italics added)

The fact that Exhibit A is blank does not affect Gatekeeper's claim because of the phrase "*including but not limited to*". Wang's main defence – that he need not deliver the intellectual property because Gatekeeper owes him royalty payments – does not have much merit. Wang claims that there was a tacit agreement between Wang and Gatekeeper that Wang would not chase Gatekeeper for royalties outstanding under the Agreement if Gatekeeper would not chase him to assign the intellectual property. Quite apart from the fact that the existence of such tacit agreement has yet to be proved (and also that this tacit agreement is never mentioned in Wang's affidavit), such agreement is unworkable because the effect of clause 1(a) of the Agreement, which states that the "(a)uthor

hereby grants... [the relevant intellectual property]", is that there was an automatic assignment of existing works upon the signing of the Agreement and of future works as and when they are created. Gatekeeper would not have to pursue Hawkeye for the assignment. This fact of automatic assignment also disposes of Wang's other argument that Gatekeeper is estopped from demanding the intellectual property now as Gatekeeper had never officially demanded that Wang hand it over until 1 July 2010. Even if Gatekeeper had not made earlier demands for the handing over of the intellectual property (something which Gatekeeper disputes), this cannot be sufficient for Gatekeeper to lose its status as owner of the intellectual property. Further, estoppel requires a clear and unequivocal representation that the representee would not rely on his strict legal rights – non-action rarely suffices. Thus, Wang cannot rely on the alleged tacit agreement or estoppel. He can only rely on the Agreement, which does not make the assignment of intellectual property conditional upon the payment of royalties. The obligation to assign and the obligation to pay royalties are independent of each other unless Wang is arguing that Gatekeeper's non-payment of royalties constituted a repudiation of the Agreement by Gatekeeper, and that Wang had accepted the repudiation, such that the assignment arrangement has since ceased. This is not pleaded by Wang. Indeed, it cannot be pleaded by Wang because Wang is counter-claiming for unpaid royalties arising under the Agreement to date.

6 If Gatekeeper is refused an interim injunction but succeeds eventually at trial to obtain an injunction, damages would be an inadequate remedy for Gatekeeper for several reasons. First, Wang's breach of the Agreement threatens to destroy Gatekeeper's business entirely. This is a factor which may make damages inadequate as a remedy (*J. Lyons & Sons v Wilkins* [1896] 1 Ch 811). Gatekeeper is a one product company and the bulk of its operations require Gatekeeper to make changes to its software source code and to integrate its software system with those of its customers, things which it can only do with the missing software source code components. Second, even if there is no destruction of Gatekeeper's business, Wang's breach will at least result in a loss of commercial goodwill and reputation for Gatekeeper. It is impeding Gatekeeper's ability to meet its contractual obligations with its existing customers and to obtain new customers for its business. The loss of goodwill is a classic example of a type of loss which is hard to compensate and most difficult to quantify (*Reed Exhibitions Pte Ltd v Khoo Yak Chuan Thomas and another* [1995] 3 SLR(R) 383). Third, Gatekeeper has tendered evidence to show that if Wang's breach were to continue, it could potentially lose about US\$7.8 million. It is doubtful that Wang would have sufficient assets against which a judgment could be readily enforced for these losses. When the defendant has no assets against which a judgment could be readily enforced, this can in itself be a strong factor in favour of granting an injunction to enforce the claimant's asserted rights. Fourth, it is Millar's evidence that it would take immense time, effort and expense for Gatekeeper to engage a new software developer to create a new software platform for Gatekeeper from scratch. There is also no guarantee that any alternative software platform would function as effectively as the existing one, as it has taken Gatekeeper six years to craft the software to its present stage of performance. Conversely, if Gatekeeper is granted an interim injunction but fails eventually at trial to obtain an injunction, damages would be an adequate remedy for Wang. The Court will order Gatekeeper to pay Wang for his efforts in (rewriting the software, if necessary, and) delivering the intellectual property sought - this is precisely the type of business that Wang is in. Wang has not argued that damages would be an inadequate remedy for him.

7 I am of the view that the balance of convenience, which refers to the risk of doing injustice, lies in favour of the granting of the injunction. Regardless of which party wins this suit, it is in the interest of both parties for the injunction to be granted. If Gatekeeper wins this suit, then it will be able to recover damages as compensation for the loss that it has suffered as a result of Wang's breach of the Agreement. The sooner Wang 'remedies' his breach by delivering the intellectual property to Gatekeeper, the less damages Wang will need to pay. If Wang wins this suit, then he will obtain judgment against Gatekeeper for unpaid royalties under the Agreement. Since Wang believes

Gatekeeper to be impecunious, it is better for him to deliver the intellectual property sought so that Gatekeeper can carry on its business and as a result, be better able to satisfy the judgment that Wang obtains. Ultimately, regardless of who wins the suit, it is in the interest of Wang, as a 42% shareholder of Gatekeeper, for Gatekeeper to be able to continue its business.

8 Wang's counsel argued that Gatekeeper is essentially seeking specific performance of a contract for personal services, something which the courts traditionally refrain from granting. This is not quite the case. Gatekeeper is seeking delivery of intellectual property which it claims to own because of clause 1(a), which requires Hawkeye to transfer to Gatekeeper ownership of certain works that Hawkeye had created or would create. This is very different from a case where, for example, Gatekeeper seeks specific performance of a contract which requires Hawkeye to create works for Gatekeeper. Wang's counsel further argued that since Wang lost the intellectual property sought by Gatekeeper after his hard disk became corrupted, the effect of an injunction would be to compel Wang to re-create it. I find it difficult to believe Wang's assertion that he has lost this intellectual property. Wang has not given evidence to show that his hard disk has become corrupted. Wang has also not explained what happened to the multiple backup copies of the software code which he repeatedly assured Gatekeeper that he had. Further, Wang's claim that he, a software developer of 15 years, did not make a backup copy of the complete source code is quite incredible. Finally, Gatekeeper claims that Wang was able to turn on the licensing server after the alleged corruption and that this could only be done with the software source code. If Wang still has the intellectual property sought by Gatekeeper, an injunction would simply require Wang to deliver intellectual property which he already possesses to Gatekeeper. In the alternative, even if Wang had indeed lost the intellectual property sought by Gatekeeper, the reasons which underlie the traditional reluctance of courts to order specific performance of a contract for personal services do not apply in this case. First, Gatekeeper's counsel submits that the delivery of software source code and licensing programme is distinguishable from the usual contract for personal service in that the software source code and licensing programme are definable objects such that it is possible to tell, objectively, if there has been adequate performance by Wang. I fully agree with this submission, which is supported by cases in which specific performance of contractual obligations to supply software has been awarded (*DCPE (UK) Ltd v International Computers Ltd* (Unreported) and *Unitech Energy Corp. v International Datashare Corp.* [2003] ABQB 203). Second, this is not a case where the Court will be forcing an unwilling defendant to carry out a personal service as Wang has stated repeatedly that he is prepared to re-write the source code. For the foregoing reasons, the interim mandatory injunction is granted.

9 It is necessary to determine what intellectual property should be included in the scope of the injunction. Gatekeeper wants the delivery of "all intellectual property related to the Gatekeeper Technology" (see [\[3\]](#) above). I think that this is too broad. Clause 1(a) of the Agreement only entitles Gatekeeper to ownership (and hence delivery) of "all works of authorship or inventorship that [Hawkeye] has created, is creating or creates hereinafter that relates to the scanning of the under carriage of motor vehicles for use as part of the Gatekeeper Technology". The injunction must thus include this restriction. With the inclusion of this restriction, part (a) of Gatekeeper's application (excluding the words in parenthesis) will mirror clause 1(a) of the Agreement. The question is whether Gatekeeper is also contractually entitled to the additional intellectual property which it has asked for in its application - viz the words in parenthesis in part (a) and the whole of part (b) of its application. In my view, the injunction should cover the "missing source code components and "CheckSign.cpp" that generates the ".sgn" file. The missing source code components clearly fall under the words "source code" mentioned in clause 1(a) of the Agreement. The "CheckSign.cpp" that generates the ".sgn" file is necessary for Gatekeeper to make changes to its software source code and/or to integrate its software system with those of its customers, and is a work created by Hawkeye as part of the Gatekeeper Technology. In relation to part (b) of Gatekeeper's application, the runtime licence issuance programme is the software which Gatekeeper needs to issue licenses to its customers when

they purchase new systems from Gatekeeper and should be included in the court order, together with its supporting software. However, if Millar's belief that the supporting hardware for the runtime license issuance programme is a laptop belonging to Wang is true, then this laptop is certainly not a work of authorship created by Hawkeye and cannot be part of the injunction. Gatekeeper has inserted the words "to enable the Plaintiff to create its own licensing server in the USA" in part (b) of its application because it wants Wang to hand over the runtime licence issuance programme so that it can issue licences to its customers directly from Gatekeeper's server in the US, instead of having a situation where only Wang could issue licenses to Gatekeeper's customers from Wang's server in Singapore. However, Wang is concerned that those words mean that he is to create and deliver software that will enable Gatekeeper to issue licences out of a US server, something which he claims the current system is not capable of doing. To allay Wang's fears, these words could be eliminated without causing any prejudice to Gatekeeper, who simply wants delivery of the current system. The parties are to produce a draft order that takes into account the above considerations for the court's approval.

10 Gatekeeper is willing to give the necessary undertaking as to damages for all losses suffered by Wang should it turn out at the trial that the interim ought not to have been granted. Wang's counsel argued that if an injunction is granted, Gatekeeper's undertaking as to damages should be fortified with a performance bond or payment into court. Wang's counsel argued that Gatekeeper is a foreign company with no assets in Singapore and that it is also impecunious. Gatekeeper's counsel in turn argued that Gatekeeper is valued at over US\$10 million. Neither party has produced any hard evidence of Gatekeeper's financial position such as its balance sheet and other financial statements. Since it is Wang's application for Gatekeeper's undertaking as to damages to be fortified, the burden is on Wang to produce evidence to show that Gatekeeper has insufficient assets to satisfy any liability under its undertaking. As Wang has not done this, there will be no order for fortification.

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